

Message Text

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ACTION EB-07

INFO OCT-01 AF-10 EUR-12 EA-07 ISO-00 AID-05 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00

XMB-02 OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01

L-03 /076 W

-----008614 200806Z /17

R 200645Z JUN 77

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 4193

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 5759

DEPT PASS EXIM, TREASURY

E.O. 11652: GDS

TAGS: EFIN, CG

SUBJECT: LONDON AGREEMENT: SAMBWA-FRIEDMAN MEETING

REF: (A) PARIS 17159 (B) BRUSSELS 2198 (C) STATE 132821

(D) KINSHASA 5379 (E) STATE 129171 (F) KINSHASA 5758

1. SUMMARY: CITIBANK OFFICIALS AND CENTRAL BANK GOVERNOR SAMBWA PROVIDE CONFLICTING REPORTS ON SAMBWA-FRIEDMAN MEETING. CITIBANK ASSISTANT VICE PRESIDENT ABBOTT CLAIMS SAMBWA "BOUGHT" REVOLVING CREDIT CONCEPT WHILE SAMBWA SAYS NO CONSIDERATION WAS GIVEN TO IT. USG SHOULD REASSESS ITS BLANKET OPPOSITION TO REVOLVING CREDIT CONCEPT BUT AT SAME TIME KEEP MAXIMUM PRESSURE ON PRIVATE BANKS. END SUMMARY.

2. CITIBANK'S ABBOTT, WHO CAME TO KINSHASA TO GATHER DEBT INFORMATION, CALLED ON CHARGE JUNE 10 AND JUNE 15. ABBOTT SAID CITI-
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BANK HAD PRESENTED 180 DAY REVOLVING CREDIT PROPOSAL TO SAMBWA AND THAT SAMBWA HAD "BOUGHT" IT. ABBOTT SAID THAT UNDER PROPOSAL CREDITS FALLING DUE ANY QUARTER COULD ROUTINELY BE EXTENDED TO ONE YEAR WITHOUT IMPEDING FURTHER DRAWDOWNS AND MADE OTHER ARGUMENTS PREVIOUSLY ADVANCED (REF C) BY CITIBANK. ABBOTT NOTED THAT LOCAL COMMERCIAL BANKS, WHICH ALREADY FINANCE LARGE SHARE OF ZAIRE'S IMPORTS, WOULD HAVE THE PRINCIPAL RESPONSIBILITY FOR KEEPING TRACK

OF MATURITY DATES OF LETTERS OF CREDIT. ABBOTT EMPHASIZED THAT THE PROPOSAL WAS STILL IN THE NEGOTIATING STAGE (SINCE AGREEMENT OF OTHER BANKS HAD NOT YET BEEN OBTAINED) AND THUS THE DETAILS WERE NOT FIXED. HE NOTED THAT SOME EUROPEAN BANKS PREFERRED A FIVE YEAR LOAN WHERE THEIR EXPOSURE WOULD DIMINISH AS PRINCIPAL PAYMENTS WERE MADE. ALTHOUGH ABBOTT INTENDED TO SEE SAMBWA, MEETING DID NOT MATERIALIZE AS LATTER DID NOT RETURN TO KINSHASA UNTIL JUNE 15.

3. DCM MET EVENING OF JUNE 16 WITH SAMBWA WHO SAID HE HAD TOLD FRIEDMAN HE COULD NOT DISCUSS ANYTHING BUT A MEDIUM TERM LOAN SINCE THIS WAS (A) WHAT WAS PROVIDED FOR IN LONDON AGREEMENT, AND (B) THE ONLY THING PRESIDENT MOBUTU HAD AUTHORIZED HIM TO DISCUSS. AT END OF THEIR MEETING, SAMBWA ASKED FRIEDMAN WHETHER HE COULD TELL PRESIDENT MOBUTU CITIBANK WOULD PRODUCE A \$250 MILLION MEDIUM TERM LOAN. ACCORDING TO SAMBWA, FRIEDMAN, AFTER SOME HESITATION, SAID YES.

4. OUR DEDUCTION FROM THESE CONTRADICTORY REPORTS IS THAT CITIBANK IS TESTING GOZ AND USG REACTION TO CONCEPT OF REVOLVING CREDITS AND DOES, IN FACT, EXPECT TO PRESENT FORMALLY SOME SORT OF SCHEME ALONG THESE LINES IN JULY. CITIBANK REALIZES, HOWEVER, THAT THEIR PROPOSAL MAY NOT FULLY SATISFY ANYONE. THEY APPARENTLY HOPE THAT THE REVOLVING LETTERS OF CREDIT SCHEME WILL PROVIDE ENOUGH FLEXIBILITY THAT A \$250 MILLION CREDIT TO ZAIRE CAN BE WORKED OUT AFTER THE PARIS CLUB MEETING. SAMBWA, ON THE OTHER HAND, NOW APPEARS ADAMANTLY TO OPPOSE THE REVOLVING CREDIT SCHEME, PARTICULARLY SINCE DELIVERY OF USG DEMARCHE (REFS B AND C) WHICH HE INTERPRETS AS 100 PERCENT USG SUPPORT" IN HIS NEGOTIATIONS WITH BANKS.

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5. WE BELIEVE THAT USG SHOULD CONTINUE TO PRESS BANKS TO BE FORTHCOMING, BUT WE ARE CONCERNED THAT PRESENT POLICY OF BLANKET OPPOSITION TO REVOLVING CREDITS MAY FREEZE NEGOTIATING POSITIONS. FURTHERMORE, WE ARE NOT CONVINCED THAT REVOLVING CREDIT SCHEME IS NECESSARILY LESS ADVANTAGEOUS THAN A REGULAR FIVE YEAR LOAN. BASED ON ABBOTT'S DESCRIPTION, WE HAVE PREPARED THE FOLLOWING TABLE WHICH COMPARES IN-FLOWS, OUT-FLOWS, AND THE CUMULATIVE CASH FLOW POSITION OF ZAIRE UNDER THE TWO SCHEMES. FOR SIMPLICITY WE ASSUME A 10 PERCENT ANNUAL INTEREST RATE AND SHOW BOTH LOANS BEING PHASED IN OVER THE COURSE OF FOUR QUARTERS.

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C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 5759

DEPT PASS EXIM, TREASURY

ESTIMATED CASH FLOW OF VARIOUS \$250M LOANS TO ZAIRE

FIVE YEAR LOAN

ONE YEAR GRACE 180 DAY REVOLVING CREDIT

QTR	IN	OUT	CUMULATIVE	IN	OUT	CUMULATIVE
1	62.5	62.5	62.5	62.5		
2	62.5	125	62.5	125		
3	62.5	187.5	125	65.6	184.4	
4	62.5	250	125	65.6	243.8	
5	21.9	228.1	125	131.3	237.5	
6	21.9	206.3	125	131.3	231.3	
7	21.9	184.7	125	131.3	225	
8	21.9	162.5	125	131.3	218.8	
9	20.3	142.2	125	131.3	212.5	
10	20.3	121.9	125	131.3	206.3	
11	20.3	101.6	125	131.3	200	
12	20.3	81.3	125	131.3	193.8	
13	18.8	62.5	125	131.3	187.5	

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14	18.8	43.8	125	131.3	181.3
15	18.8	25	125	131.3	175
16	18.8	6.3	125	131.3	168.8
17	17.2	-10.9	125	131.3	162.5
18	17.2	-28.1	125	131.3	156.3
19	17.2	-45.3	125	131.3	150
20	17.2	-62.5	125	131.3	143.8

131.3 Z12.5

131.3 -118.8

(OR CONTINUES INDEFINITELY)

ALL THINGS BEING EQUAL, THE 180 DAY REVOLVING LETTER OF CREDIT SCHEME MAY OFFER ZAIRE MORE CUMULATIVE NET CASH FLOW (I.E. RELIEF) THAN THE FIVE YEAR LOAN. FOR EXAMPLE, LOOKING AHEAD TWO AND A HALF YEARS TO QUARTER NO. 10, UNDER THE FIVE YEAR LOAN ZAIRE WOULD HAVE RECEIVED \$250 MILLION BUT WOULD HAVE PAID BACK \$128.8 MILLION IN INTEREST AND PRINCIPAL, LEAVING A NET CUMULATIVE CASH FLOW OF \$121.9 MILLION IN ZAIRE'S FAVOR. UNDER THE REVOLVING CREDIT SCHEME, ZAIRE COULD HAVE RECEIVED CUMULATIVE CREDITS TOTALING \$1.135 BILLION AND WHILE HAVING PAID BACK ABOUT \$918.7 MILLION, LEAVING A NET CUMULATIVE FLOW OF \$206.3 MILLION IN ZAIRE'S FAVOR.

6. WE RECOGNIZE THAT THERE ARE OTHER FEATURES OF THE REVOLVING LETTER OF CREDIT SCHEME WHICH MAY BE OBJECTIONABLE, E.G. THE ADMINISTRATIVE BURDEN OF REPROGRAMMING FUNDS TO SERVICE DEBT AND THE "SUDDEN DEATH" FEATURE THAT COULD COME INTO EFFECT IF ZAIRE MISSED A PAYMENT. NEVERTHELESS, WE THINK THE CONCEPT OF "COMPARABLE TREATMENT" IS HIGHLY ELUSIVE SINCE STRUCTURE OF LONDON AGREEMENT, WHICH CALLS FOR REPAYMENT OF PRIVATE BANK DEBT ON SCHEDULE, IS INTRINSICALLY DIFFERENT FROM THAT OF PARIS CLUB RESCHEDULING. IF WE ARE TO STICK TO OUR POSITION OF BLANKET OPPOSITION TO THE REVOLVING CREDITS, WE MUST BE PREPARED TO SAY WHAT WE THINK DOES REPRESENT "COMPARABLE TREATMENT" AND EXPLAIN IN CONCRETE TERMS WHY IT IS BETTER FOR ZAIRE THAN CITIBANK'S CURRENT PROPOSALS.

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Message Attributes

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Decaption Date: 01-Jan-1960 12:00:00 am
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Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
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